



STATE OF IOWA

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DEPARTMENT OF MANAGEMENT
MICHAEL TRAMONTINA, DIRECTOR

DATE: February 13, 2005
TO: Administration/Regulation Appropriations Subcommittee
FROM: Jim Chrisinger
RE: Innovations Fund Request

This memorandum responds to your request for further information regarding the offer for additional moneys for the Innovations Fund.

Background

The Innovation Fund was created ten years ago to provide a means to fund good projects that would improve government and/or save money, projects that for whatever reason could not be funded out of regular appropriations or operating budgets. The fund has enjoyed great success, as outlined on the next page.

Please note that the Innovation Fund is a loan fund, not a grant fund. Agencies repay their loans, with interest. The Innovation Fund does not give money away.

There are four reasons for "budgeting" in this way:

1. Public demand continues for Iowa state government to become more effective, more efficient, and more focused on results. This kind of change often requires investment; high performing organizations invest 10%-20% in change. The Innovation Fund represents a very limited but important investment in change. The amounts recommended constitute a fraction of a percent of the state budget.
2. Innovation sometimes requires seed capital. Base budgets are usually committed to on-going activity. The Innovation Fund is structured to fund "one-time" investments. If these investments are put in the regular budget, they tend to get funded over and over again. The Innovation Fund is an efficient vehicle for funding some of these one-time investments.
3. There is strong accountability. The Innovation Fund works like a bank. Before something is funded, there needs to be a demonstrated return on investment and a concrete way of measuring that return. The return literally involves "paying back" the loan.
4. Some opportunities arise outside the timing of the normal budget cycle. The state is wise to put itself in a position to capitalize on such opportunities from time to time.

Innovation Fund Success to Date

The Innovation Fund has been a tremendous success. Loan capital has allowed departments to launch projects for which funding was not available through the regular budget process or within an agency's operating budget. The original \$1 million appropriated to the Fund has financed ten loans and generated more than \$9.5 million in return. Another \$200,000 in returns is expected from repayment of two outstanding loans. More than \$3 million in deposits to the Innovation Fund has been transferred to the General Fund. Innovation Fund projects results include:

- Increased revenue collections through upgraded computer network capabilities and security systems;
- A simplified and improved ICN billing process;
- A modernized fleet management information system that enhanced information and decision-making and improved fleet performance;
- On-line access to the College Savings Iowa program;
- A state and local government grant identification, coordination, and tracking system;
- Reduced costs to the Department of Revenue for processing tax withholding transactions; and
- Implementation of the deferred compensation match program.

Over the years, stories about the Innovation Fund in various media have led to numerous inquiries from other units of government across the country. In 2003, the Federation of Tax Administrator's newsletter recognized Iowa's Innovation Fund in its "Cool Idea of the Week" segment.

Prospective New Innovation Fund Projects

Following are potential projects in various stages of preparation:

Electrical Cost Savings (\$1.1 million, DAS)

DAS would buy equipment to help save money on Capitol Complex electrical costs and to get an annual payment from MidAmerican Energy for periodically replacing use of their electricity with electricity from a DAS generator.

Strategic Procurement or Strategic Sourcing (\$5 million, DAS)

Involves assessing state spending practices and the development and implementation of a plan to achieve optimum pricing. Estimated savings over a 3 year period are \$20 to \$25 million.

Iowa Great Places (\$150,000, Department of Cultural Affairs)

The loan would provide start-up funding for the first six months "design phase" of the Great Places concept articulated in the Great Places budget offer. Among the activities that would be completed are the creation of a citizens' advisory board; an inventory of tools, resources, funding sources and technical assistance available to communities; completion of a leadership kaizen and process kaizen of participating state agencies and programs; development of criteria for a Great Places RFP; development of criteria for readiness to participate in Great Places; development of strategies to prepare communities for the application process; and development of measurement tools to assess the success of the Great Places program. Funds will help pay for travel and board expenses, consultation fees, and incidentals.

Integrated Information for Iowa (\$2.7 million, DAS)

This loan would provide for the completion of the I/3 system. The I/3 project is replacing the State's Budget preparation, Procurement, and Finance systems. DAS is now working on replacing the Human Resources, Payroll, and Benefits systems also. Appropriations covered the original cost of implementation. It was determined that the system needed to be implemented on a slower pace. The amount to be requested for the loan will cover that timeframe and will assist with the completion of the last portion of this project.

We have also been informed that several other agencies have potential projects that they would bring forward were the Fund to have more resources.

Conclusion

As Iowa pushes forward to become a more entrepreneurial and results-oriented state government, mechanisms like the Innovations Fund become even more critical. Agencies who have benefited from the Fund could more fully share their experiences if you wished to hear directly from them. We welcome opportunities to inform you and to listen to your input on the Innovation Fund's progress in improving Iowa state government and results for Iowans.